

VZCZCXRO5857
PP RUEHHM
DE RUEHHI #0210 0531010
ZNR UUUUU ZZH
P 221010Z FEB 08 ZDK
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC PRIORITY 7227
RUEHGP/AMEMBASSY SINGAPORE PRIORITY 2517
INFO RUEHHM/AMCONSUL HO CHI MINH 4339
RUEHBK/AMEMBASSY BANGKOK 6202
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS HANOI 000210

SIPDIS

DEPT FOR EAP/MLS, EB/IFD, USAID/ANE, USAID EGAT/EG
BANGKOK PASS TO RDM/A
DEPT PASS USTR FOR D BISBEE
SINGAPORE FOR TREASURY S BAKER
TREASURY FOR SCHUN
DEPT PLEASE PASS FED RESERVE SAN FRANCISCO FOR A MAYEDA

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [EFIN](#) [EAID](#) [ECON](#) [PREL](#) [VM](#)
SUBJECT: SBV MOVES AGAIN AGAINST EXCESSIVE LIQUIDITY

REF: A) Hanoi 193 B) Ho Chi Minh City xxxx

¶1. (SBU) The State Bank of Vietnam (SBV) announced on February 18 that it will issue VND 20.3tril (\$1.2bil) in compulsory promissory notes. This third effort to control inflation follows its earlier actions to raise the reserve ratio and set higher interest rates. Forty-one commercial banks will have to buy the compulsory promissory notes with Vietnamese currency. As there has been no public information regarding the interest rates of the notes, it is unclear whether the interest rates are attractive. The fact that buying the notes is compulsory combined with anecdotes that the banks are privately griping suggests the SBV is "stuffing" the banks.

¶2. (SBU) The decision to force commercial banks to purchase compulsory promissory notes will be implemented on March 17. Nonetheless, the effect on the stock market was immediate - it dropped below 800 following the announcement, and reached a low of 710 (down 4.63%) by the end of trading on February 20. Banks are now facing a number of challenges: higher compulsory reserves increase the cost of capital; higher interest rates from the SBV; and now they have to dedicate large sums of capital to purchase promissory notes that may or may not be offered at competitive interest rates. While the SBV has acted in order to deal with its determination that there is excessive liquidity, some banks now say there is not enough liquidity.

¶3. (SBU) Our contacts in the U.S business and banking community here have noted difficulties buying dong with their dollars. For example, one said the banks simply do not want dollars. The companies, however, have to meet their payrolls with dong. To get around this problem, some are resorting to complicated purchases of euros. Another contact charges that the SBV sells dong to local banks before foreign banks, often leaving foreign banks without the liquidity they need to complete transactions. Recent press reports state, however, that local banks have been experiencing the same problem. When we raised this issue with the SBV in late January, they told us we were "misinformed" and that this problem had only existed for a couple of days before being remedied.

¶4. (SBU) Comment: The controversy over the new compulsory promissory note purchases illustrates the challenges the SBV has in using its current instruments to rein in inflation. It still remains to be seen whether they will move decisively to make exchange rate policy more flexible, one more tool that they could use in implementing monetary policy. End comment.
MICHALAK